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Nikolov, Bogomil and Vassileva, Elka and Ivanova, Daniela

University of national and world economy - Sofia

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# QUALITY LABELLING AND INFORMATION ASYMMETRY: IDENTIFICATION AND ANALYSIS OF QUALITY LABELLING CERTIFICATION SCHEMES IN BULGARIA<sup>1</sup>

Nikolov B., Vassileva E., Ivanova D.  
Economics and Natural Resources Department,  
University of National and World Economy – Sofia, Bulgaria  
1700 Sofia, Studentski Grad "Hr. Botev", elkav@unwe.acad.bg

## Abstracts

Third party certification provides assurance to consumers that the information supplied by firms is correct. Consumers may question the validity of the information provided by firms, particularly for credence goods. Third party certification provides consumers with an objective evaluation of the product's quality attributes and helps firms establish credible market claims.

An identification and analysis of third parties quality labelling schemes in Bulgaria is presented. Discussion focuses on the coverage, promoters/owners and stakeholder inclusion in such schemes, and consideration of their impartiality, accessibility, independence and transparency. The disclosure of information to consumers by third parties quality certification is explored. Conclusions are drawn regarding their potential role in future shifts towards efficient consumer information practices in Bulgaria.

**Key words:** Quality labelling, information asymmetry, third parties quality labelling certification, Bulgaria

## INTRODUCTION

Economic studies have classified goods into a number of different categories on the basis of how information is conveyed to and/or accessed by consumers [1, 2]: **Search goods**: These are goods where consumers develop a robust notion of quality prior to purchase through either inspection and/or research; **Experience goods**: These are goods where quality is known through use and experience, which then guides future consumer decisions; **Credence goods**: These are goods where neither prior inspection nor subsequent use is sufficient for developing a robust notion of quality.

Goods do not fall neatly into any one of the three categories and many might display characteristics of more than one category. In addition, as individual consumers differ in their preferences, a particular product could be classified differently across consumers. These differences between consumers relate to the firm strategies of product differentiation and are manifested in the form of market segments. However, information about product related attributes is not easily accessible – thus placing consumers in positions of relative weakness. G.

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Akerlof [3] focuses attention on the *quality-related information asymmetries between buyers and sellers*.

Consumers are likely to be more sceptical about a supplier claim regarding credence attributes, because they know they are not in a position to control its validity even after purchase. *Labelling on the basis of third-party certification (verification)* can transform credence attributes into search attributes, i.e. those attributes that can be checked by consumers at the moment of purchase [4].

The aim of the paper is to identify and to analyse third parties quality labelling schemes in Bulgaria in relation to their potential to disclose information about products to consumers.

## QUALITY LABELLING AND INFORMATION ASYMMETRY

If information on the quality per unit of product is evenly distributed between producers and consumers, then the market equilibrium will be efficient. Consumers are able to purchase the goods that best match their preferences and society's resources are used efficiently. If, however, information is asymmetric, then this market equilibrium will not be efficient. In these cases, firms may have no incentive to disclose information and consumers may end up purchasing goods that do not match their preferences. In this case, the market does not work efficiently: goods that would be profitable with full disclosure may go unproduced while those of lesser value to consumers are produced instead [5]. This is where *third party certification and labelling* can create an efficient market by removing asymmetry of information, provided that the labels used are meaningful.

Third party certification provides assurances to consumers that the information supplied by firms is correct. Consumers may question the validity of the information provided by firms, particularly for credence goods. Third party certification provides consumers with an *objective evaluation of the product's quality attributes* and helps firms establish credible market claims.

It is well known that product certification schemes vary depending on their nature, scope and impact: obligatory for implementation (established with statutory acts on European and national level) and voluntary for implementation (established and carried out by government and non-government organisations); international, regional (European) and national; for foodstuffs and industrial goods, etc.

Depending on the various quality aspects, covered by the numerous third-party certification schemes, there are several main types of labelling: *quality labelling, eco-labelling, social/ethical labelling, sustainable labelling* etc.

### Quality Promotion through Food Labelling

According to the results of the European studies [6, 7] *Food Quality Assurance and Certification Scheme* (QACS) can appear in a wide variety of forms. Similar products may be subject to very different schemes in terms of rules and regulations and face different chain governance structures and degrees of chain integration. However, the product differentiation is one of the drivers of QACS, which usually leads to a situation where imperfect information – i.e. lack of transparency – matters. The aim of QACS is to provide information to the consumers and to guarantee some characteristics of the foods.

### Quality Promotion through Eco-Labelling

Third party consumer eco-labelling can serve three functions in the marketplace: 1) it can provide independent evaluation and endorsement of a product; 2) it can act as a consumer protection tool; and 3) it can be a means of achieving specific environmental policy goals [8 -10].

Eco-labelling is a means to narrow the information gap: independent third parties assure the consumer that the producer has complied with published, transparent, environmentally friendly standards. In recent years a number of critical research studies have been published which evaluate the reliability of Eco-labels [8, 11, 12].

Given the proliferation of environmental claims, International organization for standardization (ISO) has developed a series of international standards for environmental labels and declarations. These are advisory but are nevertheless important as reference points. They can be used as the basis for national legislation and for industry codes of practice. ISO 14020:2000 specifies the general principles for the use of environmental labels and declarations [13].

### **Quality Promotion through Social/Ethical Labelling (Sustainability labelling schemes)**

In the case of sustainability, labels might *identify relevant 'ideals' to approach* (e.g. eco-efficiency, recycling etc.) and/or *significant 'ills' to escape* (e.g. dependence on pesticide use, labour in sweatshops, child labour etc.).

Some authors examine the potential role of labelling and certification schemes in the pursuit of policies to make production and consumption processes more sustainable. According to the results of recent studies [14, 15] the role of sustainability labels might become more differentiated, varying from direct shopping aids in fostering sustainable consumption practices to background quality assurances.

Sustainability labelling [14] draws attention to the way in which societal pressure might interact with market forces to shape the information environment for products and services.

Notwithstanding the research studies of the authors of the article on the voluntary certification schemes of eco-labelling [16 – 18], there are no research data and publications about product certification schemes in Bulgaria.

## **IDENTIFICATION AND ANALYSIS OF QUALITY LABELLING CERTIFICATION SCHEMES IN BULGARIA**

### **Method**

The article was framed by analysing different sources: primary and secondary data, national and international literature, statistical data, Internet sources and legal acts.

Analysis was made by using descriptive–analytic method.

The results were analysed and discussed in the context of the potential of third parties quality labelling schemes in Bulgaria to contribute towards uptake of efficient consumer information practices in the future.

### **Results and Discussions**

In identifying third parties quality labelling schemes in Bulgaria it is necessary to emphasise the fact that the country went through a twenty year long period of transition,

coinciding with the shift from command and control economy measures imposed by the communist government towards a model of market governance, self-regulation and new environmental policy instruments, which include eco-labelling. This has also influenced the use of similar mechanisms for providing consumer information in the newly accessed EU member states.

Regarding the typology of schemes considered for the study, all schemes that can be applied to *the product and/or process quality* are included. Special attention is paid to the schemes that can be applied to *ecological, social/ethical and sustainable aspects of production* and aimed at product differentiation. Only schemes voluntary for implementation are included in the study and not the obligatory ones which are regulated by statutory acts on European and national level.

In the analysis of third parties quality labelling schemes in Bulgaria the following criteria are used according to [7, 8, 15]:

- **Criterion 1: coverage** - areas of application - local/national/international; range of label products covered by relevant issues;
- **Criterion 2: promoters/owners** - governments, private companies (profit and non-profit) or international institutions;
- **Criterion 3: stakeholder coverage** - stakeholder dialogue and inclusion of stakeholder needs;
- **Criterion 4: impartiality, accessibility, independence and transparency;**
- **Criterion 5: disclosing information to consumers:**
  - **information about product's quality attributes** (range of quality, environmental, sustainability issues covered);
  - **information about objective evaluation and endorsement of the product's quality attributes** (to verify that a set of criteria, claims or standards are being met);
  - **manner of disclosure of information** (distinctive logo, certificate, both logo and certificate, other).

The obtained results are presented in Table 1 and Table 2.

The study identifies a small number of third parties quality labelling schemes in Bulgaria (Table 1). Among them can be found both *universal processing schemes*, related to food safety assurance and organic production and *selective schemes*, limited to a specific group of products (e.g. European Ecolabel, Fair-trade Labelling FSC Labelling, etc.). They are established and administered by international, regional (European) and national organisations.

In some schemes these are *independent*, non-governmental organization, while in others they are bodies especially created in collaboration with the European Commission (e.g. The European Union Eco-labelling Board - EUEB). In all identified schemes the stakeholder dialogue and inclusion of stakeholder needs are emphasised (Table 1 - Criterion 3)

Table 1. Identification of third parties quality labelling schemes in Bulgaria, according to criterion 1, 2, 3 and 4.

| <i><b>Certification schemes</b></i>              | <i><b>Coverage Level</b></i>   | <i><b>Promoters/owners</b></i>  | <i><b>Stakeholder coverage</b></i>   | <i><b>Impartiality, accessibility, independence and transparency</b></i>  |
|--|--|---|--|---|
| <i><b>Quality Labelling</b></i>                  |  |   |  |   |
| Food Safety ISO 22 000/ HACCP                    | Foods along the supplier (food) chain<br><br>International   | International Organization for Standardization (ISO) and Codex Alimentarius Commission to FAO and WHO   | The needs of all participants in the food chain are taken into consideration   | They are verified with the system of accreditation of the certifying bodies in Bulgaria   |
| Organic foods;<br>Organic Agriculture            | Plants, products and foods of plant origin, products and foods of animal origin, produces by organic methods<br><br>International Level<br>European Level<br>National Level                                    | Farmer associations, multi-stakeholder bodies, non-profit organizations, regional promotion organizations and trust companies   | The needs of organic farming organization, consumer groups, NGOs and governmental institution are taken into consideration   | Various systems of accreditation and certification on international, European and national level. A system of approved private inspection bodies, accredited by the Bulgarian Accreditation Service and endorsed by the Ministry of Agriculture and Food is established in Bulgaria |
| Quality mark<br>„Keymark”                        | All groups of products made in compliance with the European standards<br><br>European level  | European standardization bodies, which are member of the European Committee for Standardization (CEN)   | The needs of all stakeholders are taken into consideration in accordance with the principles of European standardisation   | The Keymark can only be granted by certification bodies that have been empowered by the CEN Certification Board   |
| <i><b>Eco-, Ethical and Social Labelling</b></i> |  |   |  |   |
| European Ecolabel                                | Product groups include cleaning products, appliances, paper products, textile and home and garden products, lubricants and services such as tourist accommodation etc. (about 20 groups)<br><br>European level | The European Union Eco-labelling Board (EUEB), in collaboration with the European Commission, is responsible for developing, publishing and promoting criteria for product groups in order to minimise the environmental impacts of a wide range of products and services over their whole life-cycle | All relevant stakeholders concerned with a particular product group, such as industry and service providers, including SMEs, crafts and their business organisations, trade union, traders, retailers, importers, environmental protection groups and consumer organisations | Each member state designates a competent body charged with implementing the scheme at national or regional level  |
| National Eco-Labelling Scheme                    | National level   | Ministry of Environment and Waters – competent body   |  | Ministry of Environment and Waters plays the role of a  |

|  |   |  |  |   |
|--|---|--|--|---|
|  |   | which organises the overall activity in the creation and functioning of eco-labelling in Bulgaria  |  | notifying body  |
| Fair-trade Labelling                       | Some groups of foods and plant fibres (cotton)<br><br>International level | Fair-trade Labelling International Organizations (FLO), in which 24 organizations are members  | The needs of producers and traders, NGOs and consumer groups are taken into consideration with respect to the imbalance of power in trading relationships, unstable markets and the injustices of conventional trade | <p>The Fair-trade certification system is run by a separate company FLO-CERT. By checking compliance with Fair-trade standards, FLO-CERT ensures that relevant social and environmental standards are met and that producers receive the Fair-trade Minimum Price and Premium.</p> <p>FLO-CERT is ISO 65 certified. ISO 65 is the leading, internationally recognized quality norm for bodies operating a product certification system. FLO-CERT follows the ISO 65 norm in all its certification operations.</p> |
| FSC (Forest Stewardship Council) Labelling | Timber Products<br><br>International Level                                | FSC is an independent, non-governmental, not- profit organization established to promote the responsible management of the world's forests | The needs of the business in the forest products industry, consumer groups, NGOs and governmental institutions are taken into consideration  | The certification process is carried out by independent organizations - FSC accredited certification bodies. These certification bodies assess forest management and chain of custody operations against FSC standards  |

All third parties quality labelling schemes described in this survey comply with the requirements stipulated in Criterion 4 for *impartiality, accessibility, independence and transparency*. This is provided by the system of accreditation of the certification bodies in Bulgaria. In organic agriculture the system of approved private inspection bodies was established and it is accredited by the Bulgarian Accreditation Service and endorsed by the Ministry of Agriculture and Food. The Keymark can only be granted by certification bodies that have been empowered by the CEN Certification Board. The Ministry of Environment and Waters has the role of a notified body for awarding European Ecolabel. In some ethical and social labelling schemes this is guaranteed with certification according to ISO 65 internationally recognized quality norm for bodies operating a product certification system.

The analysed third parties quality labelling schemes in Bulgaria give variety of information to consumers (Table 2).

*Information related to the different aspects of the products and/or process quality* varies in the different schemes: safety of foods, organic way of production, characteristics of the products specified in the European standards, the environmental impact of the product throughout its life cycle, the social aspects of production and trade with certain, responsible management of the forests from which the timber for the products is taken.

Consumers are provided with *information about the evaluation compatibility* with a set of criteria, claims or standards. The analysed certification schemes are distinguished by the nature and the type of criteria and/or standards, according to which the evaluation of compatibility is carried out. In some groups of products compatibility with science-based multi-criteria is sought (European Ecolabel). In others the requirements in organisational international standards (ISO 22 000) or in European product standard (Keymark) are specified. The compatibility with the criteria of FSC standards for production and performance and Fair-trade standards for production designed to support the sustainable development of small-scale producers and agricultural workers in the poorest countries in the world is evaluated in the cases of identified ethical and social labelling schemes.

In most of the reviewed schemes (Table 2) the *graphic representation of information is presented by using a distinctive logo*. A written certificate verifying the evaluated compatibility with a set of criteria, claims or standards is also commonly used. In the food safety schemes and in some organic production schemes the labelling (logo) of the certifying body is used.



Table 2 Analysis of third parties quality labelling schemes in Bulgaria, according to criterion 5.

| <i><b>Certification schemes</b></i>              | <i><b>Information to consumers</b></i>  |  |  |
|--|---|--|--|
|  | <i><b>Product's quality attributes</b></i>  | <i><b>Objective evaluation and endorsement</b></i>   | <i><b>Manner of disclosure</b></i>   |
| <i><b>Quality Labelling</b></i>                  |   |  |  |
| Food Safety ISO 22 000/ HACCP                    | Information about implemented Food Safety Management System   | Compatibility with the requirements of the International Standard ISO 22 000 and the requirements of Codex Alimentarius  | Certificate and specific information   |
| Organic Foods<br>Organic Agriculture             | Information about Organic Production  | Compliance with the requirements of:<br><br>IFOAM standards<br><br>EU organic legislation<br><br>Bulgarian legislation   | Distinctive international, regional and national marks (labelling, logos) for organic production and certificate |
| Quality mark<br>„Keymark”                        | Information about the quality of the product, specified in European standards                       | The products is in compliance with the requirements of European product standard   | Distinctive labelling and certificate  |
| <i><b>Eco-, Ethical and Social Labelling</b></i> |   |  |  |
| European Ecolabel                                | Information about the quality of the product and the environmental impact over its whole life-cycle | Compatibility with the multi-criteria of a specific product group  | Distinctive labelling „European flower”  |
| National Eco-labelling scheme                    |   |  | Distinctive labelling  |
| Fair-trade Labelling                             | Information about the social aspects of production and trade with specific products                 | Compatibility with the requirements of Fair-trade standards for production and performance. Fair-trade standards are designed to support the sustainable development of small-scale producers and agricultural workers in the poorest countries in the world | Distinctive labelling and certificate  |
| FSC (Forest Stewardship Council) labelling       | Information about responsible management of forests   | Compatibility with FSC standards for production and performance  | Distinctive labelling and certificate  |

## CONCLUSIONS

The survey identifies a limited number of third parties quality labelling schemes in Bulgaria. This confirms the results of the European research studies [6, 7] for Food quality assurance and Certification schemes which establish that contrary to the tendency of proliferation of this schemes, no such examples can be found in the newly accessed countries.

Despite this the identified schemes are various in coverage, promoters/owners, stakeholder inclusion, their impartiality, accessibility, independence and transparency. All of them aim to differentiate the products on the market according to the *various aspects of the products and/or process quality*. The analysis shows that third parties quality labelling schemes in Bulgaria provide information to consumers about the *evaluated compatibility* with a set of criteria, claims or standards, including those of eco and social/ethical aspects. The graphic representation of the information with a distinctive *logo* is typical for almost all of the examined schemes.

In conclusion we can underline that third parties quality labelling schemes in Bulgaria aim to reduce the information gap between the seller and the buyer or the so-called information asymmetry within the market. Despite their varied nature and limited distribution they are an important tool for disclosing information to consumers. Especially in the field of *the product and/or process attributes*, quality labels could become a more popular consumer policy tool in Bulgaria. This will lead to the implementation of efficient consumers information practices related with the development of sustainable production and consumption in Bulgaria.

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